Bengal Tea & Fabrics Limited

September 13, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	25.73 (Enhanced from 24.71)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	2.25	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**27.98 (Rs. Twenty-Seven Crore and Ninety-Eight Lakhs Only)**		

Details of facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Bengal Tea & Fabrics Limited (BTFL) continue to derive strength from its experienced management and their prudent approach in managing BTFL's leverage, established operations of its tea division with owned tea estates and its comfortable leverage and debt coverage indicators.

The ratings, however, continue to remain constrained on account of moderate scale of operations which declined in FY21 (FY refers to the period from April 1 to March 31) and moderate profitability on back of loss-making textile division but supported by Tea division having better profitability on back of significant jump in the black tea prices in the domestic market in FY21. The ratings further continue to remain constrained on account of labour intensive operations of its tea division wherein the wages are regulated, susceptibility of tea production to adverse weather conditions, susceptibility of profitability of its textile division to volatile raw material prices and regulatory risk. The ratings also factors in the closure of weaving operations and its plans to monetize the non-core assets to shore-up its liquidity position.

Key Rating Sensitivities:

Positive rating sensitivities

- Growth in scale of operations with total operating income (TOI) of more than Rs 160 crore on sustained basis while maintaining healthy PBILDT margin of more than 10%.
- Improvement in liquidity with monetization of non core assets

Negative rating sensitivities

- Decline in scale of operations with TOI falling below Rs.80 crore with decline in PBILDT margin below 5%.
- Higher than envisaged debt leading to deterioration in capital structure marked by overall gearing of greater than 1x
- Elongation of operating cycle for more than 80 days on a sustained basis leading to high reliance on working capital borrowings and stretched liquidity position of BTFL

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management

BTFL, incorporated in the year 1983, is promoted by Late Shree B. D. Kanoria. It is now being managed by the next generation promoters. Mr. Adarsh B. Kanoria, who has an industry experience of over two decades. He took over the management as Chairman & Managing Director in 2001 and controls the overall affairs of the company. Furthermore, BTFL has well-qualified and experienced second tier management with well-defined organisational structure aided by strong management information system. Historically, the management has remained prudent in controlling the company's leverage which is evident from the gradual improvement in its leverage indicators.

Established operation of its tea division with reputed clientele

BTFL owns three tea estates having plantation area of 626 hectares located in upper Assam and having over four decades of operational track record in the black tea business with having own manufacturing facility. BTFL sells its black tea to reputed customers having established brands and good credit risk profile thereby mitigating counter party credit risk to a certain extent. During FY21, BTFL has majorly sold its black tea through auction players on a cash basis with an aim to reduce its dependence on large customers.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

Production of tea division in FY21 remained lower by 25% over FY20 due to Covid 19 induced lockdown in key plucking season for best quality tea in Q1FY21, and subsequently, operations were impacted by labour scarcity. However, the sales realization of black tea improved substantially by around 41% during FY21 on Y-o-Y basis due to lower supply in the market which have compensated more for the lower production of black tea which resulted into improvement in the performance of tea division. Further, BTFL commands premium price than the average tea price on account of superior quality of its tea.

Comfortable capital structure and debt coverage indicators

As on March 31, 2021, capital structure of BTFL remained comfortable marked by its overall gearing ratio at 0.20 times. Tangible net worth of BTFL augmented to Rs.96.80 crore on the back of accretion of profits into reserves.

Debt coverage indicators of BTFL improved over the previous year on the back of improved profitability and remained comfortable as marked by interest coverage ratio 3.00 times and total debt to GCA (TDGCA) of 2.47 years for the year ended March 31, 2021.

Key Rating Weaknesses

Moderate scale of operations which declined in FY21 and moderate profitability on back of loss making textile division

In FY21, textile division's TOI further reduced by 38% Y-o-Y owing to COVID-19 disruptions and continue to remain a drag on overall profitability. Textile division continued to report loss at operating level of Rs.1.01 crore in FY21. Performance of tea division improved marked by marginally higher TOI (i.e. +3.16%) as well as better profitability with significant jump in realisation. Overall TOI declined by 19.55% and PBILDT margin improved by 270 bps in FY21 over FY20.

Also, company had discontinued weaving operations and sold off its plant & machinery in FY21 resulting in additional non-operating income of Rs.3.38 crore towards the same and some of the machineries which are still pending which are expected to be sold in current year. It is expected to report further subdued performance from textile division in FY22. Profitability from the tea division is expected to support the textile division.

Labor intensive operations of tea division along with production linked to climatic conditions

Tea is amongst the most labour intensive of all plantation crops. On an average, around 40% to 50% of the total expenditure of the tea division is incurred on labour cost. The wage rate of tea plantation labourers are regulated and revised through bilateral negotiations with worker unions and other parties. As per last wage revision in May 2021, the wage rate by increased by Rs.38 to Rs.205 per day for FY22. Cost of employment also includes the social welfare cost which is mainly incurred on account of statutory provisions like water supply, medical, primary education, etc. that are to be provided to workers in India under the Plantation Labour Act. High labour cost results in high operating leverage for the company. Further, tea production is closely linked to the climatic conditions as both quality and quantity of tea produced depend on it. High operating leverage along with volatility in the tea production due to adverse climatic can severely impact the profitability of the tea division.

Susceptibility of profitability of BTFL's textile division to volatile raw material prices and environmental compliance

The major raw material cost of processing section of its textile division is various dyes and chemicals, prices of which have depicted a volatile trend in the past. Hence, any adverse change in the prices of cotton, dyes and chemicals could result in lower profitability of its textile division. Further, there is stringent pollution control regulation laid down for textile processing units under the Gujarat Pollution Control Board (GPCB) norms. BTFL during its production process generates polluted water that needs to be treated before their disposal. Hence, such units require compliance with stringent pollution control norms set by the regulatory authorities and any violation in compliance with these norms or any further strengthening of these norms would adversely impact BTFL's operations. However, the company has been complying with the required pollution control norms.

Plans to monetize its non-core assets; albeit uncertainty prevails due to Covid-19 outbreak and weakness in demand for real estate sector

The company has plans to monetize a non-core asset (guest house located in Ahmedabad) with envisaged consideration of Rs.31 crore. However, it was not able to sell this guest house and the deal was fall off due to covid-19 disruptions and adverse situation in real estate market, however, the company is trying to sale it to other party. The guest house is located in the heart of city i.e. Shahibaug area, one of the posh locality. It is to be noted that if the transaction sales through, this would provide major liquidity boost to company. The company also has a land bank in Dholka, Ahmedabad and the company is trying to monetise this non-asset also, however, the same has been delayed due to Covid-19 disruptions and adverse market situation in real estate market.

Liquidity: Adequate

Liquidity position of BTFL improved on the back of improved overall profitability and remained adequate marked by moderate utilization of working capital limits, moderate GCA against low debt repayment and moderate liquidity ratios. It is expected to generate GCA of Rs.7-10 crore in next two years against low debt repayment of Rs.0.50 to Rs.1.25 crore. Further, current ratio of the company improved and remained at 1.19x as on March 31, 2021 on the back of increase in inventory. Cash flow from operations (CFO) improved on the and remained moderate at Rs.5.90 crore in FY21 [Rs.2.32 crore in FY20]. The average working capital utilization remained moderate at 65% during past twelve months ended June, 2021.

Analytical Approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Rating Methodology for Cotton Textile Manufacturing
Financial Ratios - Non-Financial Sector
Criteria for short term instruments
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Incorporated in 1983, Bengal Tea & Fabrics Limited (BTFL, CIN: L51909WB1983PLC036542) has business interests in two segments viz. Textile and Tea. Textile division includes fabric processing (fabric division) referred as Asarwa Mills located at Ahmedabad. Textile division of BTFL once included spinning and weaving sections, however, due to negative contribution from these sections, the company discontinued them in phased manner by selling most of the assets. In Tea division, BTFL currently owns three tea estates having plantation area of 626 hectares located in upper Assam. The company processes the Green Tea leaves at a plant located at Ananda Tea Estate and sells Black tea.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	110.38	88.80
PBILDT	3.84	5.49
PAT	(1.40)	3.36
Overall gearing (times)	0.23	0.20
Interest coverage (times)	1.61	3.00

A: Audited

During Q1FY22 (Unaudited), BTFL has registered TOI of Rs.21.68 crore [Rs.8.21 crore in Q1FY21 (Unaudited)] with PBILDT of Rs.2.10 crore [Rs.0.11 crore in Q1FY21 (Unaudited)]. The company has reported net profit of Rs.0.92 crore in Q1FY22 (Unaudited) as compared to net loss of Rs.0.93 crore in Q1FY21 (Unaudited).

Status of non-cooperation with previous CRA: CRISIL has suspended its rating vide press release dated July 02, 2014 on account of its inability to carry out a rating surveillance in the absence of the requisite information from the company.

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	October, 2024	3.73	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	22.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	2.25	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	3.73	CARE BBB-; Stable	-	1)CARE BBB-; Stable (01-Sep-20)	1)CARE BBB; Negative (06-Aug-19)	1)CARE BBB; Stable (02-Aug-18)
2.	Fund-based - LT-Cash Credit	LT	22.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (01-Sep-20)	1)CARE BBB; Negative (06-Aug-19)	1)CARE BBB; Stable (02-Aug-18)
3.	Non-fund-based - ST-BG/LC	ST	2.25	CARE A3	-	1)CARE A3 (01-Sep-20)	1)CARE A3+ (06-Aug-19)	1)CARE A3+ (02-Aug-18)

Annexure-3: Detailed explanation of covenants of the rated facilities

<table>
<tr><th>Bank Facilities</th><th>Detailed explanation</th></tr>
<tr><td>A. Financial covenants</td><td>BTFL to maintain followings:<table><tr><th>Covenant</th><th>Threshold</th></tr><tr><td>Current Ratio</td><td>>=1</td></tr><tr><td>TOL/TNW</td><td><=3</td></tr></table></td></tr>
<tr><td></td><td></td></tr>
<tr><td>B. Non financial covenants</td><td></td></tr>
<tr><td></td><td>1. Effect any drastic change in their management setup.</td></tr>
</table>

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details

Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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